

REPORT OF  
ASSOCIATION FINANCIAL EXAMINATION

**CIGNA Dental Health of Missouri, Inc.**

AS OF  
DECEMBER 31, 2004



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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Plantation, Florida  
March 14, 2006

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman, (E) Financial Condition Committee, NAIC

Honorable Jorge Gomez, Commissioner  
Wisconsin Department of Insurance  
Midwestern Zone Secretary

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of **CIGNA Dental Health of Missouri, Inc.** hereafter referred to as such, as the "Company" or as "CDH-MO." Its administrative office is located at 300 N.W. 82<sup>nd</sup> Avenue, Plantation, Florida 33324, telephone number (954) 423-5800. This examination began on November 8, 2005 and concluded on the above date.

## **SCOPE OF EXAMINATION**

### **Period Covered**

The pre-licensing financial examination of CIGNA Dental Health of Missouri, Inc. was made as of March 31, 2001, and was conducted by an examiner from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001 through December 31, 2004, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon information and workpapers supplied by the Company's independent auditor, PricewaterhouseCoopers LLP, of Fort Lauderdale, Florida, for its statutory audit covering the period from January 1, 2004 through December 31, 2004. This information primarily related to evaluation of fraud risk.

#### **Comments – Previous Examination**

This section is not applicable as the only prior financial examination of this Company by the Missouri Department of Insurance is the 2001 pre-licensing examination.

### **HISTORY**

#### **General**

CIGNA Dental Health of Missouri, Inc. (CDH-MO) was incorporated on April 4, 2000 and commenced business on January 1, 2002 under Chapter 354 RSMo (Health Services Corporations-Health Maintenance Corporations-Prepaid Dental Plans). CDH-MO is a prepaid dental plan that provides dental memberships to groups in Missouri.

The Company is a wholly owned subsidiary of CIGNA Dental Health, Inc. (CDH), which is in turn a wholly owned subsidiary of Connecticut General Corporation. Connecticut General Corporation is a wholly owned subsidiary of CIGNA Holdings, Inc. CIGNA Corporation is the ultimate controlling entity within the holding company system.

#### **Capital Stock**

The Company is authorized to issue 2,000 shares of \$50 par value common stock. As of December 31, 2004, 1,000 shares were issued and outstanding to CDH, for a common capital stock balance of \$50,000.

#### **Dividends**

The Company declared and paid stockholder dividends of \$1.5 million in 2004. No dividends were declared or paid by the Company during 2001, 2002, or 2003.

#### **Management**

The management of CDH-MO is vested in a Board of Directors that are elected by the sole shareholder. The Company's Bylaws specify the Board of Directors shall consist of three members. The members of the Board of Directors serving at December 31, 2004 were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Karen Sue Rohan Hartford, Connecticut	President, CIGNA Dental and Vision Care CIGNA Corporation
Gail Murphy Garcia Coral Springs, Florida	Vice President and Secretary CIGNA Dental Health, Inc.
Michele Iris Haas Cooper City, Florida	Vice President and Treasurer CIGNA Dental Health, Inc.

Pursuant to its Bylaws, the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as the Board of Directors may deem appropriate. Officers serving as of December 31, 2004 were as follows:

<u>Name</u>	<u>Office</u>
Karen S. Rohan	President and Chairman of the Board
Gail M. Garcia	Vice President and Secretary
Michele I. Haas	Vice President and Treasurer
Barbara G. DeMaio	Vice President
John P. Frey	Vice President and Assistant Treasurer
Barry R. McHale	Vice President and Assistant Treasurer
David M. Porcello	Vice President and Assistant Treasurer
Allen L. West	Vice President, Network Operations

### **Conflict of Interest**

The Company has created a conflict of interest and ethics policy, whereby all directors, officers and key employees are required to sign Code of Ethics and Compliance disclosure statements on an annual basis. The signed disclosure statements were reviewed for the examination period. No significant conflicts or exceptions were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and Bylaws of the Company for the period under examination. The Articles of Incorporation and Bylaws were not amended during the examination period.

The minutes associated with the Company's Board of Directors' meetings and the Written Consents of the Sole Shareholder were reviewed for the period under examination. The corporate records appear to adequately document the major corporate transactions and events of the Board during the period under examination.

### **Acquisitions, Mergers and Major Corporate Events**

There were no acquisitions, mergers, or other major corporate events for the period under examination.

### **Surplus Debentures**

There were no surplus debentures issued or outstanding for the period under examination.

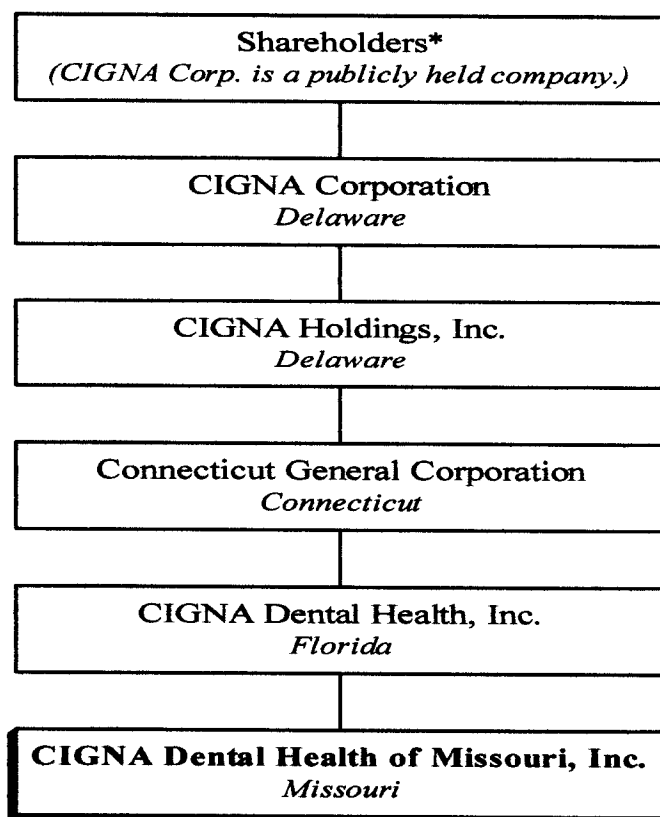
## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

CIGNA Dental Health of Missouri, Inc. is owned by CIGNA Dental Health, Inc. (CDH), a wholly owned subsidiary of Connecticut General Corporation (CGC). CGC is owned by CIGNA Holdings, Inc., a wholly owned subsidiary of CIGNA Corporation. CIGNA Corporation is a publicly held company and the ultimate controlling entity in the holding company system.

### **Organizational Chart**

The following chart partially depicts the holding company system of CIGNA Dental Health of Missouri, Inc. as of December 31, 2004. CDH-MO has many other affiliates which provide insurance, health care, investment, and financial services not included on the organization chart due to the volume.



\* As of December 31, 2004, no single individual owned 10% or more of any class of voting security of CIGNA Corporation.

### **Intercompany Transactions**

As of December 31, 2004, the following intercompany agreements were in-force:

1.    Type:           Administrative Services Agreement  
      Parties:       CIGNA Dental Health of Missouri, Inc. and CIGNA Dental Health, Inc.  
      Effective:     January 1, 2002  
      Terms:        CDH agrees to provide CDH-MO with administrative and management services and services critical to the delivery of dental care. In consideration for these services provided, CDH-MO agrees to pay CDH a monthly fee based on the number of subscribers and dependents. Fees paid under this agreement were \$1,302,018, \$1,325,566, and \$1,301,117 in 2004, 2003, and 2002, respectively.
  
2.    Type:           Amended and Restated Consolidated Federal Income Tax Agreement  
      Parties:       CIGNA Corporation and CDH-MO and various other subsidiaries  
      Effective:     CDH-MO became a party to the agreement October 1, 2001  
      Terms:        This agreement provides that a consolidated return will be filed by CIGNA Corporation for each taxable year. The tax liability or refund due from or to each member will be computed as if each member filed a separate stand-alone federal return. Payments required pursuant to this agreement shall be made quarterly with the final settlement for each year due on November 15<sup>th</sup> of the year following the tax year.

### **FIDELITY BOND AND OTHER INSURANCE**

CIGNA Dental Health of Missouri, Inc. is a named insured on a Financial Institution Bond carried by CIGNA Corporation. The limit of liability for this bond is \$5,000,000 with a zero deductible. The bond coverage is in compliance with Section 354.705(5) RSMo (Qualifications), and is in excess of the suggested minimum amount of coverage pursuant to NAIC guidelines.

The Company is also covered as a named insured on additional policies providing coverages that include, but are not limited to, the following: Directors and Officers liability, Professional Services Errors and Omissions, Fiduciary liability, Automobile liability, Umbrella liability, Commercial General and Excess liability, and Workers Compensation.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

CIGNA Dental Health of Missouri, Inc. has no direct employees. Services are provided to CDH-MO by its parent, CIGNA Dental Health, Inc. under an Administrative Services Agreement. The services are provided to CDH-MO on a fee-basis rather than a percentage-of-cost or reimbursement basis and CDH-MO therefore has no liability for employee benefits.



## STATUTORY DEPOSITS

### **Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient in par value to meet the deposit requirement for the state of Missouri in accordance with Section 354.707 RSMo (Capital and surplus requirements; deposit required).

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$50,000	\$49,795	\$49,795

### **Deposits with Other States**

The Company does not have funds on deposit with any other state.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### **Territory and Plan of Operations**

The Company is licensed by the Missouri Department of Insurance under Chapter 354 RSMo (Health Services Corporation-Health Maintenance Organizations-Prepaid Dental Plans) to offer prepaid dental plans to organizations desiring such services. The prepaid dental plans of CDH-MO are an alternative approach to the fee-for-service method of reimbursing dentists for services rendered. It is a system by which specific predetermined dental services are provided to eligible subscribers by independent dental providers or entities contracting with the Company, who in turn, are compensated at a fixed per capita rate, usually on a monthly basis. In consideration for the dental coverage provided, the covered or eligible subscriber is required to pay for the coverage through periodic payroll deductions.

The Company conducts business from its direct parent's (CDH) principal office in Plantation, Florida. Members and providers may contact the Company via written requests, toll free telephone numbers, and an on-line interactive computer system. Affiliates of CDH-MO and CDH have been in the business of administering dental plans since 1974.

Direct premiums written in 2004, 2003, and 2002 were \$8,780,427, \$8,235,056, and \$7,459,378, respectively. No premiums were written during 2001.

### **Marketing**

CDH-MO focuses its efforts on servicing mid to large size group subscribers with its various prepaid dental plans. The Company's products are marketed through licensed and appointed agents through the internal group sales offices of Connecticut General Life Insurance Company and the group of CIGNA HealthCare companies.

The advertising efforts are primarily through direct distribution of informational materials to prospective members.

### **Provider Contracts**

In order to provide the services associated with the prepaid dental plans, the Company maintains Network General Dentist Agreements and Network Specialist Agreements.

### **Grievance Procedures**

As required by Section 354.715 RSMo (Service contracts: complaint procedures), the Company has established a policy to handle grievances and complaints filed by its enrollees. This policy is communicated to all members on an annual basis.

### **Provider Credentialing and Quality Assurance**

The Company performs credentialing and quality reviews of its providers at least once every three years, and discusses all findings with the respective provider. The credentialing review is performed for the purpose of reviewing the provider's dental license, insurance coverage, the National Practitioner Data Bank status, member complaints/grievances, and controlled substance certification and registration. The areas reviewed under a quality review are the facilities of the provider, dental health records, patient treatment, and access to care.

## **REINSURANCE**

### **General**

The Company does not engage in any assumed or ceded reinsurance transactions.

## **ACCOUNTS AND RECORDS**

### **Independent Auditor**

The Company's financial statements were audited by the CPA firm of PricewaterhouseCoopers LLP for the years in the examination period.

### **Actuary**

The actuarial assumptions and methods used by the Company in determining unpaid claim reserves, actuarial liabilities and other related actuarial items were reviewed and certified by Jared M. Gross, FSA, in 2004 and Ruth Ann Woodley, FSA, in 2002 and 2003. At the time they provided these certifications, these actuaries were officers of Connecticut General Life Insurance Company, an affiliate of CDH-MO.

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

### ASSETS

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$50,445	\$-	\$50,445
Cash and short-term investments	1,704,575	-	1,704,575
Uncollected premiums	33,232	86	33,146
Net deferred tax asset	9,291	-	9,291
Receivables from affiliates	215,452	680	214,772
Commission receivable	<u>1,578</u>	<u>1,578</u>	<u>-</u>
Total Assets	<u>\$2,014,573</u>	<u>\$2,344</u>	<u>\$2,012,229</u>

### LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$437,436	
Unpaid claims adjustment expenses	7,311	
Premiums received in advance	10,644	
Current federal income tax payable	23,648	
State income tax payable	<u>832</u>	
Total Liabilities		\$479,871
Common capital stock	50,000	
Gross paid in and contributed surplus	52,000	
Statutory financial reserve	150,000	
Unassigned funds (surplus)	<u>1,280,358</u>	
Total Capital and Surplus		<u>1,532,358</u>
Total Liabilities, Capital and Surplus		<u>\$2,012,229</u>

## STATEMENT OF REVENUE AND EXPENSES

Net premium income		\$7,459,378
<b>Hospital and Medical:</b>		
Other professional services	\$5,301,354	
Outside referrals	<u>75,149</u>	
Subtotal	5,376,503	
Claims adjustment expenses	52,855	
General administrative expenses	1,017,121	
Increase in reserves for life and accident and health contracts	<u>(16,242)</u>	
Total underwriting deductions		<u>6,430,237</u>
Net underwriting gain or (loss)		1,029,141
Net investment income earned		<u>11,371</u>
Net income before federal & foreign income taxes		1,040,512
Federal and foreign income taxes incurred		<u>363,911</u>
Net income		<u>\$676,601</u>

## CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2003		\$2,363,806
Net income or (loss)	\$676,601	
Change in net deferred income tax	3,921	
Change in nonadmitted assets	(2,120)	
Dividends to stockholders	(1,500,000)	
Prior year accounts receivable allowance adjustment	<u>(9,850)</u>	
Net change in capital and surplus for the year		<u>(831,448)</u>
Capital and surplus, December 31, 2004		<u>\$1,532,358</u>

## NOTES TO FINANCIAL STATEMENTS

None.

## EXAMINATION CHANGES

None.

## GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.


## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and employees of CIGNA Dental Health of Missouri, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Angela Campbell, CFE, and Andy Balas, CFE, examiners for the Missouri Department of Insurance, participated in this examination.

## VERIFICATION

[illegible]

I, Vicki L. Denton, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Vicki L. Denton, CFE  
Examiner-in-Charge  
Missouri Department of Insurance


Sworn to and subscribed before me this 31 day of March, 2006.

My commission expires **PERESA SORU**  
**Notary Public, State of New York**  
 No. 01SO6005822  
 Qualified in Kings County  
 Commission Expires April 20, 20 06  
**SUPER**

Teresa Son  
Notary Public

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Frederick G. Heese, CFE, CPA  
Audit Manager  
Missouri Department of Insurance